

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
HYBRID INVESTMENTS MONITORING REPORT**

Relational Investors

First Quarter 2006

Investment Type: U.S. Corporate Governance Fund

Inception Date: March 1996

Capital Commitment: \$750 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 39.6 million	\$2,613.5 million
Distributed Capital:	\$ 5.1 million	\$2,194.1 million

Market Value (3/31/06): \$ 1,165.5 million

Investment Strategy:

Relational Investors employs a corporate governance strategy aimed at unlocking intrinsic value in underperforming, publicly traded, U.S. companies. When compared to the broader market and industry peers, these companies typically exhibit inferior performance in one or more of the following areas: operations, financial structure, long-term strategy, corporate governance policies or management. Each investment represents a significant percentage of a particular company's outstanding shares, generally 3-10%. Relational Investors then seeks to maximize investment value by initiating contact with the company's management, board of directors and other shareholders to facilitate change.

Summary Analysis:

Number of Investments: 13

Organization: Relational hired an Associate Analyst named Michael Punagmalai to replace Peter Brim, who left the firm to pursue other opportunities. Ty Riordan, the Director of Taxation, also left the firm to pursue other opportunities, though he is continuing to work with Relational as a consultant. Also, a fund accountant in the back office left the state and was replaced by Kelly Self. In addition, a reporting change was made that resulted in Jay Sitlani, Director of Operations, now reporting to David Damarest, Chief Administrative Officer. Lastly, Kirt Karros, Principal Analyst, David Damarest, and Jim Hearty, Managing Director, were offered equity in the firm and bought into the partnership.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through March 31, 2006, Relational has outperformed its benchmark by 14.76% on an annualized basis.

	<u>Since Inception</u>
Relational Investors (IRR)	23.77%
S&P 500 Index (IRR)	9.01%
Excess Return	14.76%

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Active Value
First Quarter 2006

Investment Type: European Corporate Governance Fund

Inception Date: September 1998

Capital Commitment: \$350 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.1 million	\$ 354.7 million
Distributed Capital:	\$ 19.8 million	\$ 394.8 million

Market Value (3/31/06): \$ 49.3 million

Investment Strategy:

Active Value Capital employs a corporate governance strategy aimed at unlocking intrinsic value in under performing, publicly traded, European companies. Active Value Capital targets fundamentally strong companies with leading positions in their respective industries that suffer from poor management, have a capital structure in need of restructuring, have undervalued brands or franchises, suffer from over-expansion or are in industries likely to undergo consolidation. Each investment will consist of either 25% of a company's outstanding preference shares or 10% of a company's ordinary shares where preference shares do not exist. Active Value then seeks to maximize investment value by initiating contact with the company's management, board of directors and other shareholders to facilitate change.

Summary Analysis:

***Number of Investments:* 2**

Organization: Active Value has indicated that the portfolio is likely to complete liquidation and returned to investors during the first half of 2006.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through March 31, 2006, Active Value's Total Composite, which is comprised of Class A, Class CIP and Pledge A, underperformed its benchmark by -1.25% on an annualized basis. The Class A & CIP Composite underperformed by -2.16%, while Pledge A outperformed by 0.72% on an annualized basis.

Since Inception	Total Composite	Class A & CIP Composite	Pledge A
Active Value (IRR)	7.15%	6.46%	8.60%
FTSE 250 Index (IRR)	8.40%	8.62%	7.88%
Excess Return	-1.25%	-2.16%	0.72%

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Hermes Focus
First Quarter 2006

Investment Type: U.K. Corporate Governance Fund

Inception Date: November 1999

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 199.9 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (3/31/06): \$ 308.4 million

Investment Strategy:

Hermes Focus Asset Management (HFAM) employs a corporate governance strategy that seeks to unlock intrinsic value in underperforming, medium-to-large capitalization, publicly traded, U.K. companies. For companies that meet their initial purchase criteria, HFAM identifies areas where value can be improved and recommends strategies for change to the board of directors and company executives. Proposed changes focus on the structure and composition of the board and management, strategic business plans and capital structure. HFAM initially expects to invest in 5-10 companies but intends to be invested in 15 companies as assets grow. Initial positions will range from 1-3% with open market purchases of common stock, however the goal is to have influence over 15-20% of a target company's outstanding shares. All cash balances will be equitized with FTSE 250 futures.

Summary Analysis:

Number of Investments: 13

Organization: David Pitt-Watson, CIO of the Hermes Focus Funds, left the firm. His responsibilities will be assumed by Nick Mustoe, who currently sits on the Focus Funds Board, and Mark Anson.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through March 31, 2006, the Hermes UK Focus Fund has outperformed its benchmark by 2.64% on an annualized basis.

	Since Inception
Hermes UK (IRR)	7.04%
FTSE All Share (IRR)	4.40%
Excess Return	2.64%

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SPARX Asset Management
First Quarter 2006

Investment Type: Japanese Corporate Governance Fund

Inception Date: January 2003

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.2 million	\$ 626.1 million
Distributed Capital:	\$ 0.1 million	\$ 228.0 million

Market Value (3/31/06): \$ 679.5 million

Investment Strategy:

The SPARX Value Creation Fund targets underperforming or undervalued companies based in Japan with a market capitalization between \$300 million and \$3 billion. The SPARX Research Platform, which is a research team of ten analysts, will use quantitative and qualitative screens to identify approximately 40 target companies from the SPARX database of 2,500 companies. The Value Creation group then will conduct in-depth research on these target companies by initiating contact with company management. These companies typically exhibit one or more of the following traits: low valuation, potential for balance sheet optimization, or potential for profit improvement. The fund looks to invest in 5-10 companies per year with 5-20% of net asset value dedicated to each investment. It will actively engage and work in partnership with management or major shareholders to unlock the investment's value over a specified period of time. The performance objective for the fund is the Topix Index + 150 basis points.

Summary Analysis:

Number of Investments: 9

Organization: Taisuke Fujita, one of the original members of the VCI team, left the firm. Two analysts from the Investment & Research department also left. Toshikatsu Kimura, head of the Investment & Research department reduced his work commitments and Tatsuo Yamamuro was promoted to assume the position of head of Investment & Research.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through March 31, 2006, SPARX has outperformed its benchmark by 4.40% on an annualized basis.

	Since Inception
SPARX Value Creation (IRR)	36.36%
Topix Index (IRR)	31.96%
Excess Return	4.40%

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Hermes Focus
First Quarter 2006

Investment Type: European Corporate Governance Fund

Inception Date: August 2003

Capital Commitment: \$100 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.0 million	\$ 100.0 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (3/31/06): \$ 209.0 million

Investment Strategy:

Hermes Focus Asset Management (HFAM) employs a corporate governance strategy that seeks to unlock intrinsic value in underperforming, medium-to-large capitalization, publicly traded, European ex-U.K. companies. For companies that meet their initial purchase criteria, HFAM identifies areas where value can be improved and recommends strategies for change to the board of directors and company executives. Proposed changes focus on the structure and composition of the board and management, strategic business plans and capital structure. HFAM initially expects to invest in 5-10 companies but intends to be invested in 15 companies as assets grow. Initial positions will range from 1-3% with open market purchases of common stock, however the goal is to have influence over 15-20% of a target company's outstanding shares. All cash balances will be equitized with FTSE Europe ex-U.K. futures.

Summary Analysis:

Number of Investments: 19

Organization: David Pitt-Watson, CIO of the Hermes Focus Funds, left the firm. His responsibilities will be assumed by Nick Mustoe, who currently sits on the Focus Funds Board, and Mark Anson.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through March 31, 2006, the Hermes Europe Focus Fund has outperformed its benchmark by 6.79% on an annualized basis.

	Since Inception
Hermes Europe (IRR)	34.21%
FTSE Europe ex-U.K. (IRR)	27.42%
Excess Return	6.79%

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Taiyo Pacific Partners/WL Ross
First Quarter 2006

Investment Type: Japanese Corporate Governance Fund

Inception Date: July 2003

Capital Commitment: \$199.6 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 0.4 million	\$ 300.1 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (3/31/06): \$ 562.6 million

Investment Strategy:

Taiyo Pacific Partners/WL Ross believe that public equity investors in Japan can be rewarded with superior returns by investing in companies that will implement corporate governance improvements. The investment strategy has two elements. First, identify undervalued stocks utilizing Taiyo's asset value and earnings potential analysis. Second, create valuation improvements by means of a three-phase corporate governance strategy. The three phases are: improving transparency and disclosure, improving corporate profitability, and improving shareholder value. Taiyo proposes to use its own proprietary database to identify target companies. Once identification is made, Taiyo's strategy is to be a constructive shareholder with those companies willing to make corporate governance improvements.

Summary Analysis:

Number of Investments: 18

Organization: Taiyo hired Taisuke Fujita as a Director, who was previously a Manager on the SPARX VCI team. Colin Bekemeyer, a Director, left the firm to pursue a new venture. Taiyo is launching a new micro-cap fund called the Pearl Fund.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through March 31, 2006, Taiyo has outperformed its benchmark by 11.54% on an annualized basis.

	Since Inception
Taiyo (IRR)	39.69%
Topix Index (IRR)	28.15%
Excess Return	11.54%

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Knight Vinke
First Quarter 2006

Investment Type: European Corporate Governance Fund

Inception Date: June 2003

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 2.8 million	\$ 269.6 million
Distributed Capital:	\$ 0.0 million	\$ 91.3 million

Market Value (3/31/06): \$ 266.7 million

Investment Strategy:

Knight Vinke believes that in the absence of effective corporate governance and a truly independent board, the separation of ownership and management can create the opportunity for management to act in its own self interest rather than that of the shareholders. The strategy looks to identify underperforming stocks of companies that are fundamentally strong where redress of the underperformance is possible in a reasonable amount of time. The firm believes that detailed fundamental analysis can identify underperforming companies that have strong operating businesses, but are in need of a corporate finance solution to a factor or factors that specifically is depressing the share price. To identify such companies the firm uses several sources: its own screening process through market information services such as Bloomberg, their own industry knowledge, outside brokers, other institutional shareholders, other corporations, industry manager who may have recently retired, or corporate finance professionals.

Summary Analysis:

***Number of Investments:* 3**

Organization: No material changes.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through March 31, 2006, Knight Vinke has outperformed its benchmark by 14.21% on an annualized basis.

	Since Inception
Knight Vinke (IRR)	37.05%
FTSE World Series Europe (IRR)	22.84%
Excess Return	14.21%

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Shamrock Capital

First Quarter 2006

Investment Type: U.S. Corporate Governance Fund

Inception Date: December 2004

Capital Commitment: \$100 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 18.9 million	\$ 77.3 million
Distributed Capital:	\$ 22.3 million	\$ 22.3 million

Market Value (3/31/06): \$ 79.3 million

Investment Strategy:

Shamrock believes that combining a deep value investment orientation with an activist shareholder approach founded upon best governance practices, results in superior returns for long-term investors. They seek to find underperforming but fundamentally sound businesses, where they can substantially improve shareholder value with their application of good governance practice. They choose to look at companies they can purchase at a significant discount (<40%) to the underlying value and find free cash flow available to owners that typically exceed 10%. Once these criteria are met, Shamrock will only invest if they believe they can persuade the Board and/or management to believe in their activist strategy to make fundamental changes to the governance structure and business. After investing, persistence and careful monitoring is the key to unlocking value.

Summary Analysis:

Number of Investments: 6

Organization: Shamrock Activist Value Fund III, L.P. was created during the quarter. This is a parallel vehicle to SAVF I, the fund in which CalPERS is invested, and SAVF II, a fund created solely for one of Shamrock's investors. Shamrock hired a new analyst (Jonathan Fung) during the quarter.

Philosophy/Process: No material changes.

Performance Analysis:

Since inception through March 31, 2006, Shamrock has outperformed its benchmark by 21.34%.

	Since Inception
Shamrock (IRR)	47.31%
Russell 2000 (IRR)	25.97%
Excess Return	21.34%

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Blum Capital
First Quarter 2006

Investment Type: U.S. Corporate Governance Fund

Inception Date: July 2005

Capital Commitment: \$125 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 5.6 million	\$ 55.5 million
Distributed Capital:	\$ 2.0 million	\$ 2.9 million

Market Value (3/31/06): \$ 56.3 million

Investment Strategy:

Blum believes that its private equity investment approach executed in the small- and mid-cap sectors of the public market results in superior returns for long-term investors. Blum seeks to find undervalued “good businesses”, where it can substantially improve shareholder value by working in partnership with management and Boards of Directors to implement value-enhancing strategies. Blum chooses to look at companies with a 10% cash-on-cash yield combined with a projected 10% growth rate in the free cash flow. Once the criteria are met, Blum will only invest if it believes that management and the Board will be receptive to its suggestions. The benchmark for Blum is an absolute return of 8% per annum.

Summary Analysis:

Number of Investments: 18

Organization: Blum hired a new Analyst, David Chung, to replace John Walker, who left the firm.

Philosophy/Process: No material changes.

Performance Analysis:

Blum has outperformed its benchmark by 8.66% since inception. However, the manager currently has less than one year of performance and current performance should not be used as an indicator of future performance.

	Since Inception
Blum Capital (IRR)	9.97%
Russell 2000 (IRR)	1.31%
Excess Return	8.66%

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New Mountain Vantage
First Quarter 2006

Investment Type: U.S. Corporate Governance Fund

Inception Date: January 2006

Capital Commitment: \$200 million

	<u>Quarter</u>	<u>Since Inception</u>
Contributed Capital:	\$ 200.0 million	\$ 200.0 million
Distributed Capital:	\$ 0.0 million	\$ 0.0 million

Market Value (3/31/06): \$ 206.4 million

Investment Strategy:

New Mountain's strategy is to proactively identify deeply undervalued companies through intensive research and then to unlock the value of these companies by working with management to improve the businesses for the benefit of all shareholders. New Mountain will pursue this value-added strategy for the many situations where a negotiated purchase of control of a public company is not available, but where New Mountain can acquire public shares in the open market and use its style of active ownership to increase the value of the firm's stock. They begin with a "Top-Down" approach, looking at sectors that have stable demands with high growth potentials. They seek companies where barriers to new entry are high, companies have pricing power, and where free cash flow generation characteristics are strong.

Summary Analysis:

Number of Investments: 14

Organization: No material changes.

Philosophy/Process: No material changes.

Performance Analysis:

New Mountain has outperformed its benchmark by 1.19% since inception. However, this is the first quarter for the manager and current performance should not be used as an indicator of future performance.

	Since Inception
New Mountain (IRR)	3.24%
S&P 500 (IRR)	2.05%
Excess Return	1.19%